

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

AUGUST 2003 VOLUME XXV NO. 2

This issue of the IDAHO OUTLOOK includes the updated FY 2004 General Fund revenue forecast. It is \$39.2 million lower than the original forecast of \$1.846 billion that was produced in December 2002. Two principal factors are behind this reduction. FY 2003 revenue (adjusted for the impact of 2003 law changes) was \$22.1 million lower than expected last January. Also, the updated forecasted growth rate for FY 2004 General Fund revenue (again, adjusted for 2003 law changes) is 3.2%, almost a full percentage point lower than the 4.1% growth that was forecast last December.

Both the lower FY 2003 revenue level and the lower FY 2004 revenue growth rate are due to the economy performing slightly below December 2002's original expectations. The economic recovery that was anticipated for the spring quarter of 2003 has now been pushed into late 2003, with the high tech sector not expected to resume growth until the spring quarter of 2004.

The General Fund revenue forecast for FY 2004 is now \$2,041.6 million, a 15.7% increase over FY 2003 revenue. This includes \$156.4 million from the sales tax rate increase, \$22.6 million from the cigarette tax rate increase, \$50 million from federal relief funds, and \$5.7 million from a variety of other 2003 law changes. It is very important to emphasize that although the amount of actual revenue expected in FY 2004 represents growth of 15.7% over FY 2003, four-fifths of this growth is due to legislative changes and a one-time gift from the federal government. The true indicator of revenue growth based strictly on economic factors is 3.2%.

The entire source of the reduction to the FY 2004 revenue forecast is the Individual Income Tax. It rose just \$1.9 million (0.2%) over FY 2002. While this is below the expected 6.0% growth, it is above the estimated 10-12% normalized drop in FY 2002. The current forecast for FY 2004 is 5% normalized growth (5.4% after factoring in law changes). This implies that the revenue bubble that burst in FY 2002 and FY 2003 is now completely deflated.

Unfortunately, with no estimated payments required for Idaho's Individual Income Taxpayers, we won't be sure until filing payments for tax year 2003 are tallied next May.

Corporate Income Tax revenue was quite volatile in FY 2003, ranging from \$8.6 million above expectations at the end of November to \$11.5 million below expectations at the end of February. The year ended with Corporate Income Tax \$7.1 million (8.3%) higher than estimated last December. The current FY 2004 forecast of \$96.7 million is \$5 million higher than the FY 2004 forecast produced in December 2002.

Sales Tax revenue also ended FY 2003 on a strong note, closing \$8.3 million (1.2%) higher than the December 2002 forecast (adjusted for the effect of the rate increase). The current FY 2004 forecast is up \$1.1 million over the forecast produced last December, with the higher starting point partially offset by a lower projected growth rate. Last December the sales tax was

forecast to grow 3.9% in FY 2004, but the current forecast has been scaled back to 2.8% growth before factoring in the effects of the rate increase. After factoring in the sales tax rate increase revenue from this source is expected to grow 23.6% in FY 2004.

Product Taxes finished FY 2003 slightly (\$0.3 million) behind the December 2002 forecast, and are expected to grow by 5.9% in FY 2004 (before factoring in the effects of the cigarette tax increase). After taking into account the cigarette tax increase Product Tax revenue is expected to grow 109.6% in FY 2004.

Miscellaneous Revenue closed FY 2003 \$4.8 million higher than expected. It is expected to grow nearly 36% in FY 2004 thanks to the one-time \$50 million federal government grant for budget relief. Without these federal funds, miscellaneous revenue would have decreased 9% in FY 2004. The decline primarily results from the continued phase-out of the state inheritance tax.

Idaho General Fund Revenue, \$Millions

	FY 2003	FY 2004
Individual Income Tax		
December 2002 Forecast	\$886.24	\$932.60
August 2003 History & Forecast w/o Law Changes	\$837.80	\$879.69
August 2003 Actual History & Forecast	\$837.80	\$882.80
Corporate Income Tax		
December 2002 Forecast	\$86.00	\$91.70
August 2003 History & Forecast w/o Law Changes	\$93.13	\$96.42
August 2003 Actual History & Forecast	\$93.13	\$96.70
Sales Tax		
December 2002 Forecast	\$678.90	\$705.70
August 2003 History & Forecast w/o Law Changes	\$687.24	\$708.95
August 2003 Actual History & Forecast	\$700.24	\$867.77
Product Taxes		
December 2002 Forecast	\$22.13	\$22.72
August 2003 History & Forecast w/o Law Changes	\$21.75	\$23.05
August 2003 Actual History & Forecast	\$21.75	\$45.60
Miscellaneous Revenue		
December 2002 Forecast	\$99.79	\$93.72
August 2003 History & Forecast w/o Law Changes	\$111.02	\$101.06
August 2003 Actual History & Forecast	\$111.02	\$150.93
Total General Fund Revenue		
December 2002 Forecast	\$1,773.05	\$1,846.43
August 2003 History & Forecast w/o Law Changes	\$1,750.94	\$1,806.98
August 2003 Actual History & Forecast	\$1,763.94	\$2,041.62

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General Fund Update

As of July 31, 2003

<u>Revenue Source</u>	\$ Millions		
	FY04 Executive Estimate ³	DFM Predicted to Date	Actual Accrued to Date
Individual Income tax	882.8	63.4	65.3
Corporate Income tax	96.7	4.4	4.0
Sales Tax	865.6	76.9	79.3
Product Taxes ¹	45.6	4.0	3.8
Miscellaneous	150.9	10.9	11.2
TOTAL GENERAL FUND²	2,041.6	159.6	163.6

¹ Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
² May not total due to rounding
³ Revised Estimate as of January 2003, adjusted for 2003 legislative actions

General Fund revenue was \$4.0 million (2.5%) higher than expected in July, the first month of fiscal year 2004. The gain was due to strong individual income tax, sales tax, and miscellaneous revenue collections. Slight weakness occurred in the corporate income tax and product taxes.

Individual income tax revenue was \$1.9 million (3.0%) higher than expected in July. On the collection side, filing payments were \$0.2 million higher than predicted and withholding collections were \$1.5 million higher than predicted. On the payout side, refunds were \$0.7 million higher than expected and

miscellaneous diversions were \$0.9 million lower than expected.

Corporate income tax revenue was \$0.4 million (9.1%) lower than expected in July. Filing payments were \$0.3 million lower than predicted for the month, while quarterly estimated payments were \$0.3 million higher than predicted. Refund payments were \$0.5 million higher than expected for the month, while miscellaneous diversions were \$0.1 million lower than expected.

Sales tax revenue was \$2.4 million (3.1%) higher than expected in July. Sales tax growth is expected to soften in

the months ahead as the impacts of rising interest rates are felt in housing and durable goods sales.

Product taxes were \$0.2 million (5%) lower than expected in July. The weakness was primarily in the cigarette tax. Miscellaneous revenue was \$0.2 million (2.8%) ahead of expectations for July on strength in estate tax, interest earnings and miscellaneous agency transfers.